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TO AMEMBASSY MANAGUA

C O N F I D E N T I A L STATE 191752

E.O. 11652: GDS

TAGS: EGEN

SUBJECT: NICARAGUA PURCHASE OF ROAD BUILDING EQUIPMENT EXIM
FINANCING

REF: MANAGUA 03512, 1359

1. EARLY IN JUNE 1975, GENERAL SOMOZA DISCUSSED WITH FORMER
EXIMBANK CHAIRMAN WILLIAM CASEY THE POSSIBILITY OF EXIM FINANCING
SOME \$40 MILLION IN ROAD-BUILDING EQUIPMENT FOR A FARM-TO-
MARKET ROAD PROJECT. NO WRITTEN APPLICATION WAS SUBMITTED.

2. WITHIN A FEW WEEKS, VICE MINISTER REMY RENER VISITED EXIMBANK TO
DISCUSS PHASE II OF THE EAST COAST CANAL PROJECT. REGARDING THE
CONVERSATION BETWEEN GENERAL SOMOZA AND MR. CASEY, MR. RENER
PRESENTED A LETTER FROM THE MINISTER OF FINANCE REQUESTING EXIMBANK'S
ADVICE AS TO HOW TO
PROCEED AND STATED THAT MUCH WORK NEEDED TO BE DONE BEFORE
AN APPLICATION COULD BE SUBMITTED. EXIMBANK INFORMED MR. RENER
THAT: A) \$40 MILLION IN ROAD BUILDING EQUIPMENT WAS CLEARLY
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EXCESSIVE IN LIGHT OF NICARAGUA'S ABSORPTIVE CAPACITY AND COUNTRY

CONDITIONS; B) EXIMBANK WOULD REQUIRE MORE SPECIFIC INFORMATION ABOUT THE ROAD PROGRAM TOGETHER WITH TYPE AND COSTS AND USE OF THE PROPOSED EQUIPMENT, AND THE PROVISION OF ADEQUATE MAINTENANCE FACILITIES AND STAFFING BEFORE IT COULD GIVE ANY CONSIDERATION TO FINANCING THE PROJECT; C) EXIMBANK STAFF IMPRESSED ON MR. RENER THAT EXIM EXPECTED THIS INFORMATION TO BE PROVIDED ALONG WITH THE APPLICATION AND SUCH AN APPLICATION WOULD STAND A BETTER CHANCE OF FAVORABLE CONSIDERATION IF IT INVOLVED A MORE MODEST AMOUNT.

3. IN JULY 1975, EXIMBANK'S BOARD CONCURRED IN THE FOLLOWING:

A) FAVORABLE CONSIDERATION WOULD BE GIVEN TO PHASE 2 OF THE EAST COAST CANAL PROJECT (EXIM SUBSEQUENTLY AUTHORIZED A \$4.9 MILLION CREDIT, \$3.3 MILLION FINANCIAL GUARANTY FOR THIS PHASE 2); B) A FEASIBILITY STUDY FOR A HYDROELECTRIC PROJECT WOULD BE LEFT FOR IDB CONSIDERATION RATHER THAN EXIMBANK; C) AFTER ADDITIONAL INFORMATION ABOUT THE FARM-TO-MARKET ROAD PROJECT IS SUBMITTED AND AN APPLICATION IS MADE, EXIM COULD CONSIDER SUPPORTING THE PROJECT UP TO A MAXIMUM EXPOSURE OF \$8 MILLION PER YEAR. EXIMBANK EXPECTED THE ADDITIONAL INFORMATION AND THE APPLICATION TO BE SUBMITTED IN THE VERY NEAR FUTURE.

4. AN APPLICATION FOR \$40 MILLION WAS SUBMITTED IN SEPTEMBER 1975 AND SOME ADDITIONAL DATA WERE PROVIDED. EXIMBANK REQUESTED A MEETING WITH THE NICARAGUANS TO TRY AND DEVELOP A CLEARLY DEFINED PROGRAM SINCE THE DATA THEY SUBMITTED WERE INADEQUATE. THIS MEETING TOOK PLACE ON JANUARY 27, 1976, AND INVOLVED A NICARAGUAN MISSION HEADED BY ING. ARMANDO GIRON GARBALLOS, THE DIRECTOR GENERAL OF THE BUREAU OF ROADS, ACCOMPANIED BY GEORGE BOLUKBAS OF BOSWELL ENGINEERING. DURING THE MEETING, IT BECAME CLEAR THAT THE DIRECTOR GENERAL WAS NOT EMPOWERED TO DISCUSS AN \$8 MILLION CREDIT AT THIS TIME AND PERHAPS ANOTHER \$8 MILLION NEXT YEAR BUT HE STRESSED THAT THE GON WAS STILL SEEKING A \$40 MILLION AUTHORIZATION. IT WAS POINTED OUT THAT EXIM WAS NOT REPEAT NOT PREPARED TO AUTHORIZE \$40 MILLION BUT MIGHT CONSIDER THE SMALLER AMOUNT (\$8 MILLION) PROVIDED THAT A REPAIR SHOP AND TRAINING PROGRAM WAS UNDERWAY BEFORE THE EQUIPMENT WAS ORDERED. THE NICARAGUAN REPRESENTATIVE LEFT STATING THAT THEY WOULD REVIEW THE SUGGESTIONS. LATER, EXIMBANK

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WAS ADVISED BY BOSWELL ENGINEERING THAT THEY HAD BEEN ENGAGED TO PREPARE A PROPOSAL REFLECTING EXIMBANK'S SUGGESTIONS. THEY ALSO ADVISED THAT REPAIR AND MAINTENANCE FACILITIES WERE SADLY LACKING AND THAT GON WAS PLANNING TO IMPROVE THOSE UNDER BOSWELL'S SUPERVISION.

5. IN JULY 1976, MESSRS. RENGERS AND GOSNELL OF EXIMBANK'S STAFF AND MR. VAN DEN BERG OF THE EMBASSY ARRANGED AN APPOINTMENT

WITH THE MINISTER OF PUBLIC WORKS MR. ARMEL GONZALES AND MR. ARMANDO GIRON GARBALLOS WITH WHOM WE HAD SPOKEN EARLIER IN WASHINGTON. MR. GIRON DID NOT SHOW-UP AT THE MEETING AND MINISTER GONZALES, IN ESSENCE, MADE THE FOLLOWING THREE POINTS: A) THE GON IS SEEKING ROAD BUILDING EQUIPMENT TO BE USED THROUGHOUT THE COUNTRY INCLUDING THE MANAGUA "BELT-WAY" B) MAINTENANCE FACILITIES COULD BE ESTABLISHED. IN FACT, THE BANK OF AMERICA WAS NOW CONSIDERING SUCH A FACILITY. HE AGREED THAT THIS ASPECT PLUS THE GRADUAL APPROACH ADVOCATED BY EXIMBANK MADE TECHNICAL SENSE, BUT HE CONSIDERED IT OF LITTLE PRACTICAL USE FOR ONCE MECHANICS AND EQUIPMENT OPERATORS ARE TRAINED THEY LEAVE THE GOVERNMENT FOR HIGHER PAYING JOBS IN THE PRIVATE SECTOR. POSSIBLE UPWARD REVISION OF PAY SCALES AS DECLARED IMPOSSIBLE. FOR THAT REASON HE ADVOCATED: C) DISCARDING OLD EQUIPMENT IN FAVOR OF MASSIVE PURCHASES OF NEW EQUIPMENT THAT WOULD REQUIRE A MINIMUM OF MAINTENANCE IN THE SHORT RUN. THIS WOULD ENABLE NICARAGUA TO MAKE A FORMIDABLE JUMP FORWARD. HE STILL TALKED IN TERMS OF A \$40 MILLION PURCHASE PROGRAM. HOW THIS EQUIPMENT COULD BE OPERATED CONSIDERING THE ACKNOWLEDGED STAFFING PROBLEMS WAS NOT EXPLAINED. THE MINISTER INDICATED THAT HE COULD OBTAIN THE EQUIPMENT ELSEWHERE REFERRING PREPARED BY BOSWELL ENGINEERING. MESSRS. RENGERS AND GOSNELL LEFT THE MEETING WITH THE UNDERSTANDING THAT EXIMBANK WOULD REVIEW WHAT THE MINISTER HAD SAID BUT INDICATED THAT THE MINISTER'S POINTS WERE DISTURBING.

6. EXIMBANK APPRECIATES THE POSITION IN WHICH THE AMBASSADOR NOW FINDS HIMSELF WITH GENERAL SOMOZA CONVEYING HIS DISAPPOINTMENT AT "EXIMBANK'S DELAY". HOWEVER, IT SEEMS THAT OFFICIALS IN THE GON HAVE NOT BEEN LISTENING TO WHAT EXIM HAS BEEN SAYING OR HAVE FORGOTTEN TO INFORM GENERAL SOMOZA OF DEVELOPMENTS.

7. SINCE THE TIME THAT EXIMBANK INFORMED THE GON REPRESENTATIVES
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THAT AN APPLICATION FOR A SMALLER AMOUNT MAY RECEIVE FAVORABLE CONSIDERATION IF ADEQUATE SUPPORTING DATA AND A MAINTENANCE FACILITY ARE PROVIDED, EXIMBANK HAS NOTED A CONTINUATION OF THE GON'S PROPENSITY FOR HEAVY BORROWINGS FROM EXTERNAL COMMERCIAL SOURCES FOR BUDGET PURPOSES AND CURRENT ACCOUNT DEFICITS. BY THE END OF 1976, THE GON'S EXTERNAL PUBLIC DEBT WILL LIKELY BE THE EQUIVALENT OF SOME 40 PERCENT OF GDP AND THE GON HAS ALREADY EXCEEDED ITS SELF-PROFESSED CEILING OF A 16 PERCENT DEBT SERVICE RATION. THE MAGNITUDE AND MATURITY STRUCTURE OF THE EXTERNAL DEBT HAS DETERIORATED.

8. IN SUMMARY, THE SITUATION AT PRESENT LOOKS LIKE THIS:

A) LAST YEAR THE GON WAS INFORMED THAT EXIM COULD NOT REPEAT NOT CONSIDER A CREDIT OF \$40 MILLION FOR ROAD-BUILDING EQUIPMENT.

B) EXIM DID IMPLY THAT A \$8 MILLION CREDIT WOULD BE CONSIDERED IF ADEQUATE SUPPORTING DATA WAS SUBMITTED AND PROPER MAINTENANCE FACILITIES WERE PROVIDED.

C) NO REQUEST HAS BEEN RECEIVED FOR THE \$8 MILLION IN EQUIPMENT. THE MINISTER OF PUBLIC WORKS GAVE EXIMBANK THE IMPRESSION THAT PROPER MAINTANANCE AND STAFFING WERE IMPOSSIBLE BUT THAT HE WAS STILL SEEKING \$40 MILLION. KISSINGER

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